

1 **FINDINGS OF FACT**

2 The Director **FINDS** that:

3 **Section One: Involved Parties**

4 1. **LPL** was, at all times material herein, a broker-dealer (CRD# 6413) licensed by the
5 State of Oregon. **LPL** has branch offices throughout Oregon, and has its principal place of
6 business at One Beacon Street, Boston, Massachusetts 02108-3106. **LPL** is a subsidiary of LPL
7 Holdings, Inc.

8 2. Jack Kleck (“Kleck”) was, at all times material herein, a broker-dealer salesperson
9 (CRD# 1069636) licensed by the State of Oregon and affiliated with **LPL**. Kleck conducted
10 business from an **LPL**-affiliated branch office located at 101 Fir Street, La Grande, Oregon
11 97035, of which he was the branch manager.

12 **Section Two, Part One: LPL’s Supervisory Structure**

13 3. Broker-dealers must be properly licensed to engage in transactions in securities in
14 Oregon. Once licensed, broker-dealers such as **LPL** affiliate with licensed salespersons to sell
15 securities to members of the public. (**LPL** identifies affiliated broker-dealer salespersons as
16 “financial advisors.”) Oregon law requires that broker-dealers exercise diligent supervision over
17 the securities activities of their affiliated salespersons.

18 4. Broker-dealer salespersons must be properly licensed to offer securities to the public.
19 Broker-dealer salespersons must, in addition to other requirements, pass a series of examinations
20 to obtain an Oregon securities license.

21 5. Broker-dealer salespersons may only be supervised by a broker-dealer partner,
22 officer, office manager, or qualified associated person. Such individuals generally hold a general
23 securities principal (“principal”) designation. A principal has passed examinations more
24 comprehensive than those required to serve as a broker-dealer salesperson. The principal may,
25 but need not be, located at the physical office at which the salesperson conducts business.
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1 6. Those with principal designations may themselves act as salespersons, whatever their
2 formal job title (for example, “branch manager”). While a principal managing an office of
3 supervisory jurisdiction (“OSJ”), when acting in the capacity of a broker-dealer salesperson, is
4 authorized to perform certain actions that a general license broker-dealer salesperson may not
5 engage in (for example, endorsing correspondence) a broker-dealer is nevertheless obligated to
6 diligently supervise that branch manager’s transactions in securities, for the protection of the
7 firm’s clients.

8 7. A broker-dealer’s principals are required to themselves be supervised by a broker-
9 dealer partner, officer, office manager, or qualified associated person. At all times material
10 herein, **LPL** referred to these types of supervisors as “designated principals.”

11 8. Some **LPL**-affiliated branch offices in Oregon have only one salesperson based at an
12 OSJ. **LPL** requires the broker-dealer salesperson at any such branch office to maintain a
13 principal designation.

14 9. At all times material herein, **LPL** assigned “designated principal” supervision
15 responsibilities to some employees with other full time duties for the firm.

16 10. At all times material herein, certain **LPL** designated principals did not have
17 regular contact with the branch office managers they supervised. Furthermore, some designated
18 principals did not review documents, memoranda, or materials to an extent that would have
19 given them insight into the nature or pattern of their branch managers’ securities transactions on
20 behalf of **LPL** clients.

21 **Section Two, Part Two: LPL’s Suitability Obligations To Every Brokerage Client**

22 11. Broker-dealer salespersons are required to make a *client specific* determination that
23 the securities they are recommending are “suitable” for that client, given the client’s investment
24 objectives, financial situation and needs, and other relevant information such as age, annual
25 income, investment experience, risk tolerance, and liquidity needs.

26



1 12. **LPL** required new clients to provide data to the firm about their employment,
2 financial holdings, age, investment objectives, and related information. **LPL** salespersons had
3 access to all such information at all times relevant to the matters described below.

4 13. **LPL** required each new client to classify their overall investment objective as falling
5 within one of the following six categories: income with capital preservation, income with
6 moderate growth, growth with income, growth, aggressive growth, or trading. **LPL** salespersons
7 had access to this information at all times relevant to the matters described below.

8 14. **LPL** asked existing clients to update the above-described information when a client’s
9 change of life circumstances could impact the broker-dealer salesperson’s analysis of which
10 securities to recommend to that client. **LPL** salespersons had access to documents reflecting all
11 such information at all times relevant to the matters described below.

12 15. **LPL** required clients interested in purchasing “alternative investments” to provide
13 additional information about their financial circumstances immediately prior to the contemplated
14 transaction. **LPL** salespersons had access to all such information at all times relevant to the
15 matters described below.

16 **Section Two, Part Three: Examination of Books and Records**

17 16. Pursuant to **LPL**’s written policies and procedures, in place at all times material
18 herein, the firm monitored transactions engaged in by its broker-dealer salespersons by, in part,
19 conducting an examination of the books and records in every branch office within its system on
20 an annual basis (“annual branch office review”). Every **LPL** annual branch office review was
21 conducted by a compliance examiner or lead compliance examiner, each of whom had taken and
22 passed at least as many securities examinations as the branch manager whose practice they were
23 examining. The annual branch office review consisted of, among other tasks, an analysis of the
24 broker-dealer salesperson’s transactions, an on-site interview of the branch manager, and a
25 hands-on review of the contents of a number of client files.
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1 **Section Three, Part One: LPL Branch Manager Jack Kleck’s Securities Practice**

2 17. Jack Kleck was first licensed to sell securities in June 1982, when he affiliated
3 with Edward Jones, a licensed broker-dealer with which he remained until May 2000. In August
4 2000 Kleck affiliated with **LPL**. A condition of his affiliation was that he pass the Series 24
5 general securities principal examination, which he did in November 2000.

6 18. The **LPL**-affiliated branch office Kleck was in charge of served La Grande,
7 Oregon, a community of approximately 12,400 in eastern Oregon. Kleck was the only
8 salesperson located at his branch.

9 19. In 2005 forty-five percent (45%) of the securities Kleck sold were mutual funds,
10 eighteen percent (18%) were equities, twelve percent (12%) involved annuities, and seven
11 percent (7%) dealt with fixed income instruments. During this same period of time, eighteen
12 percent (18%) of Kleck’s practice involved the sale of a single “alternative investment”,
13 securities issued by Petroleum Development Corporation (“PDC”).

14 **Section Three, Part Two: LPL’s Approval Of Alternative Investment Transactions**

15 20. At all times material herein, **LPL** was (and remains) a full-service broker-dealer,
16 offering its clients a broad range of securities products including stocks, bonds, mutual funds,
17 variable annuities, and what it called “alternative investments”, the latter category encompassing
18 more complex, and often riskier, investments in such instruments as real estate investment trusts
19 and limited partnership interests.

20 21. At all times material herein, the sale of alternative investments by an **LPL** broker-
21 dealer salesperson bore a number of conditions not present in the case of, for example, the sale of
22 a publicly traded stock. **LPL** required that every alternative investment transaction be approved
23 by a unit at its San Diego office, the alternative investment desk, to ensure that these
24 requirements were satisfied.

25 22. Issuers of securities falling within **LPL**’s alternative investment category, such as
26 partnerships seeking to raise operating capital, may choose to impose certain qualifying

1 conditions (“suitability requirements”) in connection with sales of its securities, spelled out in
2 offering memoranda. **LPL**’s alternative investment desk was responsible for ensuring that
3 prospective sales solicited by its broker-dealer salespersons met these requirements.

4 23. Broker-dealers such as **LPL** may place additional restrictions on the sale of
5 securities, including alternative investments, by their salespersons. Broker-dealers may designate
6 that specified types of securities make up only a certain percentage of any clients’ portfolio, or
7 that clients above a certain age threshold be limited in their ability to purchase these riskier types
8 of securities. For example, at all times material herein **LPL** guidelines specified that clients
9 under the age of seventy could hold a maximum of twenty percent (20%) of their liquid net
10 worth in direct invested alternative investments, while those over the age of seventy were limited
11 to a ten percent (10%) ceiling.

12 24. At all times material herein, **LPL**’s alternative investment desk was charged with
13 reasonably ensuring that **LPL** alternative investment purchase guidelines were satisfied before it
14 approved a prospective transaction. To properly do so, it needed to access and review documents
15 such as a client’s account opening forms, prospectus receipts, executed subscription agreements,
16 etc. To aid its efforts, **LPL** asked its broker-dealer salespersons to submit an “LPL Alternative
17 Investment Transmittal Form” with each new alternative investment application. (Although this
18 practice has since changed, at all times material herein this document was neither reviewed nor
19 signed by the salesperson’s client). The form served as a checklist for the alternative investment
20 desk staff: on a single page the broker-dealer salesperson submitted a description of the client’s
21 investment objective, years of direct placement investment experience, liquid net worth, current
22 alternative investment positions, annual income, etc.

23 25. At all times material herein, **LPL** alternative investment desk staff conducted a
24 manual review of each alternative investment transaction application submitted by any of its
25 salespersons. This review was intended to determine, in part, whether a proposed transaction
26 would, in conjunction with an **LPL** client’s existing alternative investment holdings, exceed



1 **LPL** guidelines regarding the maximum permissible alternative investment holdings for an
2 individual of the **LPL** client's age.

3 **Section Three, Part Three: Kleck's Sales Of PDC Securities**

4 26. Kleck sold securities issued by PDC. PDC, based in West Virginia, engages in the
5 acquisition, development, production, and marketing of natural gas and oil in the United States.
6 The company also purchases, aggregates, and resells natural gas developed by other producers to
7 industrial end-users, utilities, gas marketers, and wholesale gas purchasers.

8 27. Kleck sold seventy-one (71) PDC partnership units to thirty-four (34) clients. Each
9 PDC partnership operated oil and gas wells in Colorado, Michigan, North Dakota, Alabama,
10 West Virginia, and Utah.

11 28. PDC partnership units were not liquid securities, and were not listed on any public
12 exchange. PDC investors could not readily sell their partnership units.

13 29. PDC partnerships operate in a speculative industry: natural gas and oil drilling can
14 result in unproductive wells, and even completed wells may not produce enough gas or oil to
15 generate profits.

16 30. PDC partnerships do not begin to issue distributions until six months or more beyond
17 the date of a partner's investment. PDC estimated that a complete payout would not transpire for
18 up to thirteen (13) years after the PDC partner's specific offering closed.

19 31. Once PDC partnerships commence the payment of distributions, monthly payments
20 average approximately \$120 per \$10,000 partnership unit.

21 32. Prospective PDC partnership investors had the option of investing as either a PDC
22 limited partner or a PDC general partner.

23 33. A PDC limited partner's prospective loss, while potentially substantial due to the
24 inherently speculative nature of the investment, could not exceed the amount of their principal
25 investment. (For example, a limited partner who invested \$25,000 could lose no more than
26 \$25,000).

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1 34. A PDC general partner’s prospective loss could exceed the amount of their principal
2 investment, and was unlimited. A general partner that invested \$25,000 could, as a named party
3 to a judgment against the general partnership and each general partner individually that assessed
4 liability jointly and severally, be subject to having the totality of their individual assets attached
5 to satisfy said judgment in the event the partnership’s insurance coverage proved to be
6 insufficient. (General partners, however, did receive certain preferential tax treatment of their
7 investment.)

8 35. PDC general or limited partnership units are most aptly classified within the
9 “aggressive growth” realm.

10 **Section Three, Part Four: Kleck’s Sales Of Corporate Bonds**

11 36. Kleck engaged in a series of bond transactions on behalf of his **LPL** clients,
12 sometimes selling bonds already in a client’s portfolio to purchase different corporate debt
13 obligations.

14 37. Bonds are rated, using the Standard and Poors classification system, from AAA to D.
15 Bonds rated AAA to BBB are, in industry parlance, known as “investment grade” instruments
16 because of the financial strength of the issuer and the substantial likelihood of repayment. On the
17 other hand, bonds rated BB to D are, in industry parlance, known as “high yield” bonds. High
18 yield bonds generate attractive returns, in part, because of the higher risk that the issuer will not
19 be able to make payments of principal and interest to the bondholder.

20 38. Kleck sold both investment grade and high yield bonds to his **LPL** clients.

21 **Section Three, Part Five: LPL Client WK**

22 39. WK was, at the time of the transactions at issue, an 89-year-old La Grande, Oregon
23 resident. Kleck had been WK’s broker-dealer salesperson for over a decade.

24 40. At the time he opened his account, WK indicated to LPL in writing that his overall
25 investment objective was to obtain “income with moderate growth.”
26

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1 41. From 2003 on WK began showing signs of his advanced age, including a visibly
2 apparent loss of cognitive abilities, evident by near constant episodes of confusion and
3 disorientation, as well as a significant loss of hearing. Kleck, who testified before the Director
4 that he was aware of WK’s deteriorating condition, nevertheless continued to sell securities to
5 WK.

6 42. In 2003, as a result of WK’s condition, WK’s son obtained a written power of
7 attorney from WK, authorizing the son to act as an agent for his father. WK’s son presented this
8 instrument to Kleck, advising Kleck that he wished to participate in all investment related
9 discussions Kleck had with WK. Kleck nevertheless communicated with WK about investment
10 related matters without informing WK’s son before, during, or after the conversation.

11 43. On a number of occasions, Kleck accompanied WK into the Community Bank branch
12 in La Grande, Oregon. Kleck approached Community Bank tellers NM or CT and asked specific
13 questions about WK’s account (account balance, nature and amount of recent deposits and
14 withdrawals, etc.). The teller responded to Kleck’s inquiries by noting that, pursuant to bank
15 policy, she could only provide such information to the accountholder. Kleck directly instructed
16 WK, standing next to him and appearing confused, to pose specific questions to the teller. Kleck
17 then instructed WK to withdraw funds from his account, and caused WK to use these funds to
18 purchase securities through **LPL**.

19 44. Kleck sold WK PDC general partnership units on three separate occasions in 2004
20 (\$20,000 on March 26, 2004, \$10,000 on April 20, 2004, and \$10,000 on November 7, 2004).

21 Kleck was aware, or should have been aware, of WK’s fragile mental state when he sold him
22 these securities. He knew, or should have known, that WK lacked an adequate ability to review
23 the lengthy PDC prospectus. He did not tell WK about the substantial risks associated with this
24 investment, nor did he discuss the transactions with WK’s son. Because these securities were in a
25 category inconsistent with WK’s stated investment objective (“income with moderate growth”),
26



1 Kleck misrepresented WK’s investment objective as being “growth with income” when
2 forwarding transaction related documents to LPL’s alternative investment desk for approval.

3 45. Kleck sold WK three separate high yield bonds on January 20, 2006 (\$27,727.70
4 worth of a B rated Albertsons, Inc. high yield bond, \$10,047.07 worth of a BB rated Sears
5 Roebuck Acceptance Corporation high yield bond, and \$8,624.20 worth of a BB rated Sears
6 Roebuck Acceptance Corporation high yield bond). Kleck was aware, or should have been
7 aware, of WK’s fragile mental state when he sold him these securities. He did not explain
8 adequately to WK the risks associated with investing in debt instruments that were not
9 investment grade, nor did he discuss the transactions with WK’s son.

10 **Section Three, Part Six: LPL Client WH**

11 46. WH was, at the time of the transaction at issue, an 85-year-old La Grande, Oregon
12 resident. Kleck had been WH’s broker-dealer salesperson for nearly two decades.

13 47. At the time she opened her account, WH indicated to LPL in writing that her overall
14 investment objective was to obtain “income with moderate growth.”

15 48. On September 1, 2004 Kleck sold WH a PDC general partnership unit in the amount
16 of \$15,000. Kleck, who knew, or should have known, that his 85-year-old client would not read
17 or understand PDC’s 175 page prospectus, did not counsel WH that investing in PDC as a
18 general partner, instead of as a limited partner, potentially subjected her to unlimited personal
19 liability, above and beyond the amount of her investment.

20 **Section Three, Part Seven: LPL Client DF**

21 49. DF was, at the time of the transactions at issue, a La Grande, Oregon resident. DF
22 passed away after a battle with cancer in June 2004 at the age of 89. Kleck served as DF’s
23 broker-dealer salesperson.

24 50. At the time he opened his account, DF indicated to LPL in writing that his overall
25 investment objective was to obtain “income with moderate growth.”

26

1 51. On April 19, 2004 Kleck sold DF a PDC general partnership unit in the amount of
2 \$20,000. Kleck was aware, or should have been aware, of DF’s fragile physical and mental state
3 when he sold him this security. He knew, or should have known that, under the circumstances,
4 DF lacked the ability to review the lengthy PDC prospectus. He did not tell DF about the
5 substantial risks associated with this investment. Because these securities were in a category
6 inconsistent with DF’s stated investment objective (“income with moderate growth”), Kleck
7 misrepresented DF’s investment objective as being “growth with income” when forwarding
8 transaction related documents to LPL’s alternative investment desk for approval.

9 **Section Three, Part Eight: LPL Approval Of Kleck’s Alternative Investment Transactions**

10 52. The **LPL** alternative investment desk failed to adequately review alternative
11 investment transactions submitted by Kleck before approving the sales of such securities to its
12 clients.

13 53. The **LPL** alternative investment desk was under a duty to analyze each proposed
14 alternative investment transaction to ensure, at a minimum, that the prospective sale: (A)
15 satisfied the issuer’s standards, as stated in the prospectus; (B) met **LPL** guidelines for
16 alternative investment purchases; (C) did not run afoul of the client’s stated investment
17 objectives; and (D) was suitable for the client, after review of information in **LPL** account
18 documents.

19 54. The **LPL** alternative investment desk, which acted as Kleck’s supervisor for the
20 purpose of the transactions at issue, had a duty to conduct an independent analysis of each
21 proposed alternative investment transaction by reviewing **LPL** account related documents for a
22 given client. It was not permitted to rely solely on Kleck’s representations regarding the **LPL**
23 client’s financial circumstances and portfolio holdings.

24 55. The **LPL** alternative investment desk approved the sale of securities to Kleck’s
25 clients based on misrepresentations made by Kleck and in the absence of an adequate
26 independent review of client account documents. The **LPL** alternative investment desk relied on



1 numerous inaccurate assertions by Kleck with respect to **LPL** clients' annual income, liquid net
2 worth, and previous alternative investment purchases.

3 56. The **LPL** alternative investment desk approved the sale of securities to Kleck's
4 clients in instances in which it initially disapproved of transactions for failure to meet the issuer's
5 prospectus guidelines (mandating that a purchaser have a specified minimum net worth).
6 However, within a brief period of time, Kleck resubmitted the same proposed transactions,
7 claiming a sudden, marked increase in the client's holdings. The transactions were approved,
8 without additional scrutiny.

9 57. The **LPL** alternative investment desk, acting in a supervisory capacity, should have,
10 after diligent review of **LPL** client documents, identified Kleck's repeated misrepresentations
11 and alerted appropriate **LPL** officials to the conduct at issue. It did not do so.

12 **Section Three, Part Nine: LPL's Examination of Kleck's Books and Records**

13 58. On October 25, 2005 an **LPL** lead compliance examiner visited Kleck's office in La
14 Grande, Oregon to conduct a pre-announced annual branch office review of the books and
15 records of Kleck's securities practice.

16 59. Prior to conducting said examination the **LPL** lead compliance examiner read, among
17 other materials, a five-page document (an **LPL** "eBTR Transactions" chart) containing a
18 description of all securities transactions Kleck had engaged in on behalf of clients during the
19 course of calendar year 2005. The eBTR chart contained, by transaction, information about the
20 client's age, investment objectives, product purchased, amount invested, etc. Pursuant to **LPL**
21 procedure, the lead compliance examiner used the eBTR chart to "target" (pre-select) specific
22 client files for review during the course of his examination.

23 60. **LPL** compliance examiners were given discretion to choose which files to physically
24 examine during the course of an examination. Although this practice has since changed, at all
25 times material herein some compliance examiners did not regularly discuss the contents of
26 particular examinations with **LPL** compliance supervisors.





1 61. **LPL** compliance examiners would, based on **LPL** guidelines that used the total dollar
2 amount of securities sold by the broker-dealer salesperson as their criteria, generally review
3 between eight (8) and fifteen (15) targeted client files. In addition, compliance examiners
4 customarily examined up to five (5) randomly chosen files during the review.

5 62. Compliance field examiners at broker-dealers, including **LPL**, review client files
6 during an examination for a broad number of reasons, including: to ascertain whether
7 representations a broker-dealer salesperson made to a broker-dealer (for example, in an
8 alternative investment transmittal sheet) about a client or a client’s holdings are accurate; to
9 ascertain whether correspondence to or from the client has been properly endorsed by the branch
10 manager or other authorized principal; to ascertain whether there are “blank” documents that a
11 client has been asked to sign, at the broker-dealer salesperson’s behest, in a client file; to
12 ascertain whether the client has submitted a complaint that has gone unreported to the brokerage
13 firm; to glean evidence, if any, of unreported outside business activity (“selling away”) involving
14 the broker-dealer salesperson and the customer; to ensure that new account documents and/or
15 updated account documents have been fully completed and are in the client’s file; and to gather
16 background for a discussion of the suitability of particular trades on behalf of specific clients
17 with the salesperson during the examiner’s face-to-face interview with the broker-dealer
18 salesperson.

19 63. During the examination of Kleck’s books and records **LPL**’s compliance examiner
20 reviewed eight (8) client files, the minimum number of files acceptable under **LPL** guidelines.
21 Six (6) of the clients invested in mutual funds in 2005 while two (2) purchased variable annuities
22 that year.

23 64. Although the listing of PDC transactions Kleck engaged in on behalf of clients in
24 2005 took up more than two full pages of the five page eBTR chart - with the ages of many of
25 these clients listed on the chart as being in their 70s and 80s – the **LPL** compliance examiner did
26 not examine the client files of any alternative investment purchasers.



1 65. The **LPL** compliance examiner who conducted the examination at issue testified
2 before the Director that, prior to the date of his examination of Kleck’s securities practice, and
3 not specifically in connection with the examination, the compliance examiner was informed by
4 superiors that there was no need to “target” files with alternative investment transactions for
5 review during annual branch office examinations because the transactions were pre-approved by
6 the **LPL** alternative investment desk. As a result, the compliance examiner testified, he generally
7 did not do so.

8 66. Consistent with **LPL** practice at the time, the **LPL** compliance examiner also
9 randomly reviewed five (5) additional client files during the Kleck examination. However, **LPL**
10 practice did not require memorialization of which files the compliance examiner reviewed, or
11 what conclusions he reached with respect to those files. As a result, the compliance examiner did
12 not create a record with respect to his review of the randomly chosen files.

13 67. At the conclusion of his annual branch office review the **LPL** compliance examiner
14 conducted a face-to-face interview of Jack Kleck. The compliance examiner did not question
15 Kleck about any of his alternative investment transactions.

16 **Section Four: Changes To LPL Compliance And Supervision Practices**

17 68. Since the above described events took place, **LPL** has taken numerous steps to
18 improve its compliance and supervisory practices. The steps include, but are not necessarily
19 limited to, increasing the number of employees devoted to compliance and supervision related
20 functions, developing and implementing the use of proprietary software tools to aid compliance
21 efforts, increasing review of potential alternative investment transactions, and enhancing its
22 system of branch office examinations.

23 69. The number of employees in **LPL**’s compliance group has been increased. The group
24 has been reorganized into a “supervision team” composed of designated principals whose
25 primary job function is to review the business of **LPL** branch office managers. The firm’s
26 restructuring of its compliance efforts allows significantly greater direct contact between



1 designated principals and the producing branch office managers being supervised, and has given
2 designated principals more ability to recognize unusual conduct by particular branches, and to
3 follow up on any areas of concern. Designated principals are responsible for, at a minimum, a set
4 of supervisory tasks now described in detail by **LPL** policies and procedures. **LPL** continues to
5 add to the roster of designated principals.

6 70. **LPL** has developed a series of proprietary databases and software tools to aid its
7 efforts to fulfill its compliance and supervision functions. The **LPL** Compliance Access
8 Database captures data required to allow the Compliance team’s designated principals and
9 surveillance analysts to analyze and record data related to Compliance procedures. The system
10 allows the analysts to maintain accurate records as well as employ sophisticated metrics to
11 analyze trends and patterns in salespersons’ business practices.

12 71. **LPL** has improved the process by which alternative investments are examined and
13 approved or disallowed. **LPL** now requires the use of additional information, along with client
14 age, liquid net worth, actual net worth, and investment experience, to better assess the risks
15 posed to individual clients by particular alternative investments. In conjunction with this effort,
16 **LPL** has also revised the forms presented to clients seeking to purchase alternative investments.

17 72. **LPL** has made enhancements to its system of branch office examinations. Examiners
18 receive continuous training, including bi-weekly national conference calls and in person
19 meetings during the year. The **LPL** inspection module has progressed from a paper-based system
20 to a computerized system. **LPL** examiners now use an online inspection system accessible by
21 laptop computer while in the field. Additionally, **LPL** rotates examiners so that different
22 examiners inspect an affiliated branch office from year to year.

CONCLUSIONS OF LAW

23
24 The Director **CONCLUDES** that:

25 73. **LPL** was, at all times material herein, licensed as a broker-dealer by the State of
26 Oregon, and is therefore subject to the mandates of the Oregon Securities Law, ORS 59.005, *et*

1 *seq.*, and its accompanying administrative rules, OAR 441-001-005 *et seq.* **LPL** is responsible
2 for the securities related activities of its associated person Jack Kleck.

3 74. **LPL** failed to diligently supervise the securities activities of its associated person who
4 authorized the sale of PDC general partnership interests to **LPL** client WK, in violation of ORS
5 59.205 (13) and OAR 441-205-0210 (1). The **LPL** associated person lacked reasonable grounds
6 to believe that these high risk securities would be suitable for an individual of WK's deteriorated
7 mental condition, advanced age, and investment objectives.

8 75. **LPL** failed to diligently supervise the securities activities of its associated person who
9 authorized the sale of high yield bonds to **LPL** client WK, in violation of ORS 59.205 (13) and
10 OAR 441-205-0210 (1). The **LPL** associated person lacked reasonable grounds to believe that
11 these securities would be suitable for an individual of WK's deteriorated mental condition,
12 advanced age, and investment objectives.

13 76. **LPL** failed to diligently supervise the securities activities of its associated person who
14 authorized the sale of PDC general partnership interests to **LPL** client WH, in violation of ORS
15 59.205 (13) and OAR 441-205-0210 (1). The **LPL** associated person lacked reasonable grounds
16 to believe that these high risk securities would be suitable for an individual of her advanced age
17 with her investment objective.

18 77. **LPL** failed to diligently supervise the securities activities of its associated person
19 who authorized the sale of PDC general partnership interests to **LPL** client DF, in violation of
20 ORS 59.205 (13) and OAR 441-205-0210 (1). The **LPL** associated person lacked reasonable
21 grounds to believe that these high risk securities would be suitable for an individual of DF's
22 deteriorated medical condition, advanced age, and investment objectives.

23 78. **LPL**, in connection with the sale of PDC general partnership interests to its brokerage
24 clients by branch officer manager Jack Kleck, failed to diligently supervise the securities
25 activities of its associated person, in violation of ORS 59.205 (13) and OAR 441-205-0210 (1),
26

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1 by appointing an employee with other full time responsibilities for the firm to serve as Kleck’s
2 supervisor (“designated principal”).

3 79. **LPL**, in connection with the sale of PDC general partnership interests to its brokerage
4 clients by branch office manager Jack Kleck, failed to diligently supervise the securities
5 activities of its associated person, in violation of ORS 59.205 (13) and OAR 441-205-0210 (1),
6 by not ensuring that the unit charged with pre-approving alternative investment had adequate
7 resources to be able to compare the information transmitted to it by Kleck with **LPL** client
8 documents.

9 80. **LPL**, in connection with the sale of PDC general partnership interests to its brokerage
10 clients by branch office manager Jack Kleck, failed to conduct a thorough and comprehensive
11 examination of its La Grande, Oregon branch office on a periodic basis to reasonably ensure that
12 its internal policies and procedures were enforced, in violation of ORS 59.205 (13) and OAR
13 441-205-0210 (4).

14 **ORDER**

15 Therefore, the Director **ORDERS** that:

16 81. **LPL** shall, pursuant to the authority contained in ORS 59.245, **CEASE AND**
17 **DESIST** from offering and/or selling securities to persons in or from the State of Oregon in
18 violation of the Oregon Securities Law and/or its accompanying administrative rules.

19 82. **LPL** is, pursuant to the authority contained in ORS 59.995, ordered to pay the sum of
20 **ONE HUNDRED THOUSAND DOLLARS** (\$100,000) as a civil penalty for all violations of
21 ORS 59.205 and OAR 441-205-0210 described herein, which sum shall be paid concurrent with
22 entry of this Order.

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Division of Finance and Corporate Securities
Labor and Industries Building
350 Winter Street NE, Suite 410
Salem, OR 97301-3881
Telephone: (503) 378-4387



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IT IS SO ORDERED.

Dated this 7th day of November 2011 at Salem, Oregon.

SCOTT L. HARRA, Acting Director
Department of Consumer and Business Services

/s/ David Tatman
David C. Tatman, Administrator
Division of Finance and Corporate Securities

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Labor and Industries Building
350 Winter Street NE, Suite 410
Salem, OR 97301-3884
Telephone: (503) 378-4387



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CONSENT TO ENTRY OF ORDER

LPL FINANCIAL LLC states: that it has read the foregoing Order and fully understands the contents thereof; that it has been advised of its right to a hearing and of the right to be represented by counsel at such a hearing; that it, voluntarily, and without any force or duress, consents to the entry of this Order, expressly waiving any right to a hearing in this matter; that the Order contains the complete agreement of the parties, and that no additional promises or assurances have been made to Respondent by the Director with respect to matters covered by the Order; that it understands that the Director reserves the right to take further actions to enforce this Order or to take appropriate action upon discovery of other violations of the Oregon Securities Laws; and that it will fully comply with the terms and conditions stated herein.

Respondent further understands that this Consent Order is a public document.

Dated this ____ day of _____, 2011.

For LPL Financial LLC:

I, Stephanie L Brown represent that I am Managing Director of LPL Financial LLC, and that, as such, have been authorized by LPL Financial LLC, to enter into this Order for and on behalf of LPL Financial LLC

Dated this 25th day of October, 2011.

LPL Financial LLC
By: /s/ Stephanie L Brown
Title: Managing Director & General Counsel

/s/ Diane H. Carter
(Printed Name of Notary Public)
Notary Public
for the State of: Massachusetts
My commission expires: July 15, 2016

Division of Finance and Corporate Securities
Labor and Industries Building
350 Winter Street NE, Suite 410
Salem, OR 97301-5888
Telephone: (503) 378-4387

